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## China, Peoples Republic of

### Country Strategy Statement

### Post Strategy Statement

### 2008

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**Report Highlights:**

ATO Chengdu covers Southwest China. With a population of 200 million and a regional gross domestic product (GDP) of \$289 billion, the area is twice the size, six times the population, and three times the GDP of Central America. ATO Chengdu has identified five mission critical goals for Southwest China: International standards and food safety; Modernizing agriculture; Distribution and trade infrastructure; Trade education, and; Consumer acceptance. ATO Chengdu has developed the following strategic activity framework to maximize efforts in Sichuan and Southwest China. In order to coordinate a unified message, maximize resource allocation, and build a national brand in both first and second tier markets, this Strategy Statement assumes certain key projects will be funded nationally.

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## Summary

ATO Chengdu covers Southwest China. With a population is 200 million and a regional gross domestic product (GDP) is \$289 billion, the area is twice the size, six times the population, and three times the GDP of Central America. Compared with Southeast Asian countries, it is second only to Indonesia.

According to some estimates middle-income consumers now represent almost 35 percent of urban population and at current growth rates will exceed 50 percent by 2010 and 7 percent of the total population by 2015. Economic growth in the provinces of Southwest China are some of the highest in the world, averaging between 12 and 15 percent. Growth in the regions two largest emerging city markets in the region, Chengdu and Chongqing, accounting for 20 percent of the region's population, is approaching 20 percent per year.

The first luxury expenditures made by the emerging middle-class is on food; increases in food consumption will be the highest among discretionary expenditures. Annual increases in GDP of between 15 and 20 percent in the emerging city markets are rapidly creating a high consumption society with a distinct interest in food quality and variety. Food consumption patterns and trends are changing so rapidly that they are difficult to quantify. To bring China's food consumption trends to light, ATO Chengdu is the FAS partner on a joint FAS/ERS study consumption trends.

ATO Chengdu has identified five mission critical goals for implementation in Southwest China: Implementing international standards and improving the food safety system; Modernize agriculture through Farm Coops; Improved distribution and trade infrastructure; Demand development by educating trade, and; Building consumer acceptance.

To maximize the effectiveness of the ATO's efforts in Chengdu, Sichuan and Southwest China, ATO Chengdu has developed the following strategic activity framework. This framework is directly correlated the Country Strategic Statement and, where possible, is integrated into "National" ATO programming throughout China. It is, however, localized to adapt to the unique requirements of Emerging City Markets (ECM).

In order to coordinate a unified message, maximize resource allocation, and build a national brand in both first and second tier markets, certain key projects should be funded nationally. Program proposal development, including budget allocations, should be coordinated among all FAS/China offices. National EMP and GBI programs to be coordinated include Distribution and Retail Development, National Lifestyle Media, Food Safety, Intellectual Property Rights, HRI Sector Program, and the Cold Chain Program. While Emerging City Markets, like Chengdu, have unique market development requirements, ATO Chengdu can plug into these nationwide programs.

## I. Introduction

ATO Chengdu opened its doors on December 14, 2007. Post believes that the new office, staff and program development initiatives will be best focused through and interactive process of program development with the Office of Agricultural Affairs (OAA), other ATOs in China, FAS/Washington and U.S.-based cooperators and their local representatives. This document is intended to initiate this conversation.

China has a huge domestic market which is expanding as disposable incomes rise. In 2006, China's exports exceeded \$969.3 billion and imports rose to nearly \$791.8 billion, increasing 27 percent and 20 percent respectively. The United States imports from China in 2007,

where more recent numbers are available, were \$321.4 billion and exports to China were \$65.2 billion.

Since 2002, U.S. exports of agriculture, forestry, and fishery products to China have increased from \$2.3 billion to \$9.4 billion in 2007. In 2008, China is projected to be the fifth largest U.S. overseas market.

China boasts over 30 years of annual growth between eight and 12 percent. Most of this growth has been located in urban areas along the eastern seaboard. In response to income disparities between urban and rural populations and between eastern and western provinces, China's leadership has begun to focus growth on rural areas and the western provinces. Last year Sichuan and Chongqing were established as special economic development zones and BO Xilai, the author of the economic miracle in Dalian and former Minister of the Ministry of Commerce, was sent to Chongqing as the Party Secretary to boost economic growth.

Economic growth in the provinces of Southwest China is some of the highest in the world, averaging between 12 and 17 percent. Economic growth in the regions two largest emerging city markets, Chengdu and Chongqing, is approached 20 percent per year in 2007. The challenge is to translate the economic development into growth for agricultural exports. This document is an effort to meet this challenge.

## **II. Market Assessment: Chengdu and Chongqing - China's Fastest Growing ECMs**

ATO Chengdu covers Southwest China and includes the provinces of Sichuan, Chongqing, Guizhou and Yunnan. The region has some cultural affinity to Southeast Asia. The population is 200 million and the regional gross domestic product (GDP) is \$289 billion. The area is twice the size, six times the population, and three times the GDP of Central America. Among Southeast Asian countries, in terms of population, area, and GDP, Southwest China is second only to Indonesia.

Economic growth in the provinces of Southwest China is some of the highest in the world, averaging between 12 and 15 percent. Growth in the regions two largest emerging city markets, Chengdu and Chongqing, accounting for 20 percent of the regions population, are approaching 20 percent per year. While growth in Sichuan is down after the recent earthquake, growth for the first half of 2008 is still estimated at an annual rate of almost 10 percent and international trade to Sichuan is up more than 50 percent in the first half of 2008. Post forecasts that post-earthquake redevelopment efforts will accelerate growth, expanding existing U.S. export development opportunities.

Annual increases GDP of between 15 and 20 percent in emerging city markets is rapidly creating a high consumption society with a distinct interest in food quality and variety. Food consumption patterns and trends are changing so rapidly that they are difficult to quantify. To bring China's food consumption trends to light, ATO Chengdu is the FAS partner on a joint FAS/ERS study consumption trends.

## **III. ATO Chengdu Goals and Objectives**

### **Goal 1: Implementation of International Standards and Establishment of a Science Based Risk Analysis Food Safety System in Southwest China**

Improve the implementation of risk management and risk communication for the food safety infrastructure in Southwest China. Strengthen China's regulatory system to reduce food safety problems with China's exports and ensure Chinese domestic food safety incidents can be minimized and handled appropriately so that these incidents do not cause collateral

damage to U.S. exports. This program will arrest the development of a two-tiered food safety system, one for imports and exports and another for domestic products.

### **Goal 2: Accelerate the Modernization of Agriculture in Sichuan and Chongqing**

Accelerate the modernization of China's agricultural sector in Sichuan and Chongqing through the development of agricultural cooperatives and technical exchanges in agricultural production. In addition to building political capital, modernization will increase rural incomes, further increasing demand for U.S. agricultural exports.

### **Goal 3: Build a Distribution and Trade Infrastructure that Supports U.S. Exports**

Build an import, transportation, distribution, and trade infrastructure that creates a trade channel from key China ports to interior emerging city markets (ECM) including Chengdu, Chongqing and Yunnan. This is required so that U.S. products have access throughout the distribution channel and the tools to insure their products are properly handled and protected.

This goal includes improving the cold chain/food handling and associated regulations. It also includes building a distribution network, insuring that U.S. marketing partners understand the benefits of branding and the requirements of brand protection under China's intellectual property rights laws.

### **Goal 4: Demand Development in Emerging City Markets: Educating the Trade**

Train import, transportation, distribution and the food service sectors in the availability and proper handling and use of U.S. food products. This would include educating traders and distributors understand what products are available, how they are handled, and the benefits of U.S. products. This goal also includes educating the food service industry on the effective use and market potential for using U.S. products.

### **Goal 5: Improve Consumer Acceptance of U.S. Food and Agriculture Products**

Establish a national brand for U.S. agricultural products and American lifestyle and develop a consumer education campaign to educate consumers of U.S. food and agriculture products about the benefits of use, including appropriate (IPR) brand protections to create a U.S. image/brand. The program would include market research to provide feedback on program successes and failures. Important programs also include targeting children through a school lunch program and end users through retailers and targeted use of food and style media. This goal is a follow-on to and closely integrated with Goal 4 above.

## **IV. Localizing the Country Strategic Statement: Building a Strategic Vision**

ATO Chengdu's three principal mission objectives are information gathering, trade facilitation, and market development. To maximize the effectiveness of the ATO's efforts in Chengdu, Sichuan and Southwest China, ATO Chengdu has developed the following strategic activity framework. This framework is directly correlated the Country Strategic Statement and, where possible, is integrated into "National" ATO programming throughout China.

Chengdu, along with the other 14 top second tier cities consumes over 50 percent of U.S. exports. ATO Chengdu has broadly identified three developmental areas to expand U.S. exports to the region. First, establish U.S. leadership among local government leaders. Second, insure that the trade infrastructure supports U.S. product. Third, educate intermediate and end consumers.

## **A. The High Road in Government Affairs**

ATO Chengdu has identified three programs to facilitate trade by establishing U.S. leadership among local government leaders.

### **Implementing Food Safety Locally**

The first is to train the local government on the implementation of international food safety standards, with a focus on U.S. practices. This would be coordinated out of Beijing, but would need to be tailored to local needs. Specific activities would include in-country training reverse visits (Cochran and IVP) and scientific and technical exchange. This program has been included in the food safety strategy document and proposed in the Food and Agriculture Export Alliance. An ancillary benefit is that it could provide positive media coverage on the strength of the U.S. food safety infrastructure. ATO Chengdu suggests identifying specific budget allocations in those EMP/GBI programs.

### **Eating our Lunch: The School Lunch Program**

The second is the development of the school lunch program. The two key components of this project would be to develop nutrition and educational information for children that is broad enough to include and highlight U.S. food products. The second is to expose Chinese youth to quality U.S. food products to develop future consumers. Additional benefits would be to improve the health and education of Chinese school children and increase the quantity of food demanded in China. The school lunch program in Chengdu is intended to be a pilot program that would be sustainable throughout China. In addition to local government partners, ATO Chengdu has identified the Public Nutrition and Development Council as a national level quasi-governmental partner. If successfully replicated throughout China, USDA would benefit by extending the reach of developed educational material and gaining positive media attention.

### **Rural Development: Farm Cooperatives**

The third is to support rural development. Last year the State Council designated Chengdu and Chongqing as pilot cities in China for agricultural reforms specifically focused on narrowing the gap between urban and rural economic development. Last year China also legalized farmer cooperatives, something that leading academics, including China Academy of Science scholar YU Jianrong, have identified as critical for rural development, food security, and social stability. Given USDA's long history with farm cooperatives, bringing in USDA and farm bureau expertise to support local government would go a long way to extend USDA reach and influence in Southwest China, and perhaps beyond. ATO Chengdu would welcome a coordinated project.

## **B. Building the Business Infrastructure**

Chengdu, like other top second tier cities including Chongqing and Yunnan, is inland and requires distribution development. Physical infrastructure is a critical component, but once the physical infrastructure is built, distributor and retail development is critical. Initial analysis suggests that once the distribution network is developed, the growth in export opportunities will exceed GDP growth. In the first six months of 2008 increases in trade to Sichuan is five times GDP growth. The limits will not be income, but lack of product knowledge with consumers and along the distribution chain.

## **Cold China Development**

To address physical infrastructure limitations, ATO Chengdu has coordinated with FAS/Washington and the Trade Development Agency on an ambitious program to develop a cold chain pipeline from the eastern and southern ports of Shanghai and Guangzhou, respectively, to Chengdu. The program will provide seed money for a financial assessment and cooperate with investors to develop the physical infrastructure.

## **Distributor and Retail Development**

Even with a physical infrastructure to support U.S. exports to Southwest China, trade requires a network of importers logistics operations, distributors and outlets. In some ways, building this network is one of the slowest and most deliberate development needs. Activities to build this network include trainings, receptions and reverse trade missions. Cooperator activities in Chengdu and Southwest China often include an industry training component.

Like other network development programming, some of the distributor and retail development efforts would be strictly local while others would benefit from a coordinated effort. Activities would include seminars, trade missions, trade show programming, and retail store promotions. In many cases buying decisions by the major retailers are diffuse. Developing a nationwide distributor and retail program would leverage our nationwide coverage to insure that we maximize the penetration of U.S. exports to China and the impact of our retail promotions.

As an example, according to ATO Chengdu research, Metro's principal importer is headquartered in Shanghai but the imports come through Guangzhou. Logistics for Southwest China Metro stores are handled out of their facility in Wuhan. A coordinated distributor and retail development effort should include team members from all the other ATOs. ATO Chengdu suggests that this be a nationwide EMP program; ATO Chengdu would assign a person to support this effort to insure that it is tailored to the needs of ECMs.

## **C. Reaching out to Consumers**

Even with a product pipeline to Chengdu, effective U.S. product penetration requires an increased level of consumer knowledge and acceptance. To raise the profile of U.S. product, ATO Chengdu proposes the following programs: Hotel, Restaurant and Institutional (HRI) Sector Training, Chef Club, Media Club. Traditionally, many of these events are cooperator sponsored. Coordinating this program China-wide would eliminate competition between ATOs, assist in developing a unified message, and reduce the costs of developing a different message and theme for each city. Key components of these programs would be organized by different ATOs for nationwide implementation development costs are reduced and as much as possible in a large country, ATO marketing has a common message. Cooperator participation would continue to be a critical component of success.

### **HRI Sector Training**

This program would design modules for training food and beverage managers, chefs, key cooking schools, and trend setting restaurants. The modules would then be implemented nationwide. In the past, the SRTGs have been a leading partner in this effort, bringing expert chefs to train local entrepreneurs and China's up-and-coming chefs. ATO Chengdu proposes an EMP program that would partner with SRTG contributions. The program would include HRI sector training, menu promotions, and themed events that would be developed and then deployed throughout China. If properly executed, this would tie in closely with the national

lifestyle media development project. ATO Chengdu would be willing to take the lead on writing up an EMP project for this national program and coordinate implementation with other offices.

### **Le Chef Club**

The Chef Club combines lessons learned from cooperator chef clubs and other ATO Food Service group, both of which have been highly successful in developing U.S. access to the hotel, restaurant and institutional (HRI) food sector. The Chef Club would integrate with the HRI Sector training, reverse missions, and would tie neatly with the training already provided by cooperators. Aside from integration into the HRI Sector Training and cooperator coordination, ATO Chengdu believes this is mostly a local program that would be coordinated with and funded through the HRI Sector Training program.

### **The Media Club**

The Chengdu Media Club would build on the National Lifestyle Media Project. This Media Club will connect to and provides U.S. industry access to important local food and style media. ATO Chengdu believes that this project would benefit from two additions. First, other ATOs should be added as media centers. More critically for ATO Chengdu is the inclusion of an ECM program. The combined effort of the national program and an ECM program would leverage high profile media in Beijing and elsewhere and raise the media profile of U.S. products in ECM, maximizing media access in the other cities. The value of this in Chengdu and other Southwest China second tier cities is significant.

ATO Chengdu proposes partnering on a coordinated project and developing a unified (EMP) proposal that allocates approximately 60 percent of the resources to Beijing and Shanghai and approximately 40 percent to EMC.

## **D. Servicing our Industry**

The weakest link to marketing our products in China is a limited understanding of the market. With growth at more than 10 percent annually in many of the urban markets, and almost 20 percent in emerging city markets like Chengdu and Chongqing, information is quickly dated.

In an effort to address this information gap, ATO Chengdu will continue to spearhead the Consumption Trend Analysis research project. Over the last 18 months, the program has expanded to include not only food products, but textiles, furniture and quality characteristics, including country of origin and novel technologies. ATO Chengdu will also include an extensive staff training program.

The other area where there is an information gap is with intellectual property rights. Cooperators and U.S. industry have limited access to relevant information. While increasingly aware of why, cooperators and U.S. companies are not fully informed about how to protect and enforce intellectual property rights. ATO Chengdu proposes contracts with legal experts in trademark registration, registration monitoring and enforcement at each ATO location to provide regular reports, ad hoc advice, FAS/China staff training, and one-hour consultations for entities coming into ATOs for briefings.

## **V. Prototyping Chengdu for Market Development in other Second Tier Cities**

According to market research, Chengdu is representative of other ECM that often lead growth in China and absorb over 50 percent of U.S. exports. ATO Chengdu foresees using the

experiences developing the ECM in Southwest China to provide a model development strategy for other ECMs. This would include local government relationship building, infrastructure development, and HRI, and Media education. Critical to this effort will be adequate resources.

### A. Organizing National Programs

As a new office, it is critical for ATO Chengdu to plug into national programs. Additional benefits to coordinated national programs include, cost savings, cross training between offices and better coordinated programs with cooperators.

### B. Resource Requirements: Chengdu

In addition to plugging into these national program, ATO Chengdu's has identified the following resource needs: complete the office buildout; increased staffing; additional program funds; staff training.

## VI. Linking Local Programs to USG Goals and Objectives

### Goal 1: Implementation of International Standards and Establishment of a Science Based Risk Analysis Food Safety System in Southwest China.

*Supports: FAS China Goal 1: Expand China's Use of International SPS Standards, Objective 1.10: Improve implementation and unify enforcement of international standards and nationally developed standards by all local ports.*

*FAS Objectives 1.2, 3.1, 3.2, 3.3, 3.4  
China Mission Strategic Plan, Goals 3, 5  
TPSC China Objective #1, #2  
With USDA/APHIS and USDA/FSIS*

*Supports: FAS China Goal 2: Implement Risk Analysis Science-based Food Safety System*

*Objective 2.2: Strengthen China's regulatory system to reduce food safety problems with China's exports.*

*Objective 2.5: Prevent development of a two-tiered food safety system, one for imports and exports and another for domestic products by harmonizing requirements and standardizing enforcement of SPS and TBT requirements for domestic and imported goods.*

*Objective 2.6: Ensure Chinese domestic food safety incidents can be minimized and handled appropriately so that these incidents do not cause collateral damage to U.S. exports.*

*FAS Objective 2.2, 2.3  
China Mission Strategic Plan, Goals 3, 5  
TPSC China Objective #3, #4  
With HHS/FDA*

### Goal 2: Accelerate the Modernization of agriculture in Sichuan and Chongqing

*Supports: FAS China Goal 4: Speed Modernization of China's Agricultural Sector  
Objective 4.1: Increased use of U.S. inputs in China's agricultural sector. Increased use of agricultural inputs will reduce food safety problems and increase U.S. exports.*

- Objective 4.2: *Implement pilot projects that demonstrably link production capacity building to long-term FAS strategic goals that increase incomes and demand for U.S. agricultural products.*
- Objective 4.5: *Establish and help strengthen local extension and risk management, marketing, statistical, agricultural research system.*
- Objective 4.7: *Improved distribution systems, regulations, and the cold chain so food safety and food quality are maintained throughout the food distribution system.*

FAS Objective 2.2, 2.3

China Mission Strategic Plan, Goals 3, 5

TPSC China Objective #3, #4

With Commerce/FCS and USDA/ARS /RMA /CSREES /NASS /AMS

### **Goal 3: Build a Distribution and Trade Infrastructure that Supports U.S. Exports**

Supports: FAS China Goal 2: *Implement Risk Analysis Science-based Food Safety System*

Objective 2.4: *Improve cold chain/food handling, regulations, and marketing that assists the effective use of U.S. agricultural products.*

FAS Objective 2.2, 2.3

China Mission Strategic Plan, Goals 3, 5

TPSC China Objective #3, #4

With HHS/FDA

Supports: FAS China Goal 3: *Expand and Diversify Markets for U.S. Agricultural Products in China*

Objective 3.1: *Open and expand trade to Emerging City Markets. FAS China will lead U.S. agriculture's efforts as it expands trade in Emerging City Markets.*

Objective 3.2: *Open and expand trade in new product markets. FAS China will lead U.S. agriculture's efforts as it expands trade in new markets and niches such as high value products, functional foods, ready-to-eat, and other sectors.*

Objective 3.3: *Improved use of USG resources because of improved cooperation and coordination between industry and FAS/China offices.*

Objective 3.6: *A U.S. brand/image that can be trademarked, certified, and used to both counter piracy and provide value added to U.S. agricultural SME without adequate resources for effective marketing campaigns.*

FAS Objective 2.1

China Mission Strategic Plan, Goals 3, 6

TPSC China Objective #5

Supports: FAS China Goal 4: *Speed Modernization of China's Agricultural Sector*

Objective 4.3: *Use of U.S. technology and standards to reduce China's use of European Union standards.*

Objective 4.7: *Improved distribution systems, regulations, and the cold chain so food safety and food quality are maintained throughout the food distribution system.*

FAS Objective 2.2, 2.3

China Mission Strategic Plan, Goals 3, 5

TPSC China Objective #3, #4

With Commerce/FCS and USDA/ARS /RMA /CSREES /NASS /AMS

**Goal 4: Demand Development in Emerging City Markets: Educating the Trade**

*Supports: FAS China Goal 3: Expand and Diversify Markets for U.S. Agricultural Products in China*

- Objective 3.1: Open and expand trade to Emerging City Markets. FAS China will lead U.S. agriculture's efforts as it expands trade in Emerging City Markets.*
- Objective 3.2: Open and expand trade in new product markets. FAS China will lead U.S. agriculture's efforts as it expands trade in new markets and niches such as high value products, functional foods, ready-to-eat, and other sectors.*
- Objective 3.3: Improved use of USG resources because of improved cooperation and coordination between industry and FAS/China offices.*
- Objective 3.4: Open new sectors to U.S. products by making use of national and international events, meetings, and trade shows held in China.*
- Objective 3.5: Create an enhanced image of U.S. products that demonstrably boost demand for new products.*
- Objective 3.6: A U.S. brand/image that can be trademarked, certified, and used to both counter piracy and provide value added to U.S. agricultural SME without adequate resources for effective marketing campaigns.*

*FAS Objective 2.1  
China Mission Strategic Plan, Goals 3, 6  
TPSC China Objective #5*

*Supports: FAS China Goal 7: Improved IPR Situation for U.S. Agriculture in China*

- Objective 7.1: Effective IPR enforcement system. A system would combine modern regulation with enforcement.*
- Objective 7.2: Reduced misuse of U.S. marks. Effective IPR enforcement would reduce misuse of U.S. trademarks, brands and other IPR.*
- Objective 7.3: Increase U.S. mark registration. U.S. exporters increase registrations to prevent abuse of IPR.*

*FAS Objective 1.2  
China Mission Strategic Plan, Goal 3  
TPSC China Objective #2, #4  
With PTO*

**Goal 5: Improve Consumer Acceptance of U.S. Food and Agriculture Products**

*Supports: FAS China Goal 3: Expand and Diversify Markets for U.S. Agricultural Products in China*

- Objective 3.1: Open and expand trade to Emerging City Markets. FAS China will lead U.S. agriculture's efforts as it expands trade in Emerging City Markets.*
- Objective 3.2: Open and expand trade in new product markets. FAS China will lead U.S. agriculture's efforts as it expands trade in new markets and niches such as high value products, functional foods, ready-to-eat, and other sectors.*
- Objective 3.3: Improved use of USG resources because of improved cooperation and coordination between industry and FAS/China offices.*

*Objective 3.4: Open new sectors to U.S. products by making use of national and international events, meetings, and trade shows held in China.*

*Objective 3.5: Create an enhanced image of U.S. products that demonstrably boost demand for new products.*

*Objective 3.6: A U.S. brand/image that can be trademarked, certified, and used to both counter piracy and provide value added to U.S. agricultural SME without adequate resources for effective marketing campaigns.*

*Objective 3.7: Develop a systematic understanding of current consumption patterns with the capacity to evaluate future consumption trends depending on varying levels of projected growth.*

*FAS Objective 2.1*

*China Mission Strategic Plan, Goals 3, 6*

*TPSC China Objective #5*